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June 7, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street S.W.
Washington, D.C. 20554

Re: Ex Parte in CC Docket No. 95-116

Dear Ms. Salas:

On June 4, 1999, Daonne Caldwell, Sally Varner and the undersigned, representing BellSouth, met with Kris Monteith, Renee Terry, Calvin Howell, Christopher Barnekov, Ray Kannan and John Scott from the Competitive Pricing Division. The purpose of the meeting was to discuss Tariff No. 1 Transmittal No. 502 and CC Docket No. 95-116. The attached document formed the basis for the BellSouth presentation.

As required by Section 1.1206(b) (2) of the Commission's rules, I am filing two copies of this notice for inclusion in the dockets identified above and ask that you would associate this notification and the attachments with the proceeding identified above.

Sincerely,

W. W. Jordan
Vice President – Federal Regulatory

cc: Kris Monteith (w/o attachments)
Renee Terry (w/o attachments)
Carol Howell (w/o attachments)
Christopher Barnekov (w/o attachments)
Ray Kannan (w/o attachments)
John Scott (w/o attachments)

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BellSouth Long-Term Number Portability
Request For Information
May 26, 1999

1) Please explain assumptions underlying your end-user charge forecasts shown in Chart2-a.

RESPONSE: The recovery mechanism for LNP implementation is an end user charge per line per month, for 5 years, commencing with initial billing of the charge. The demand inputs are assumed to be representative of the 5-year period May 15, 1999 through May 14, 2004. BellSouth used regional access line demand for the end user charge cost development. Mid-year convention was applied to the annual end of year demand to derive the base demand used in the cost development for the end user charge. Mid-year convention accounts for the fact that our access line demand is changing throughout the year. As such, mid-year convention calculations are shown in Chart 1-p, lines 15-47. The resulting base demand is forwarded to Chart 2a-p. As shown in Chart 2a-p, the annual projected demand is shown for the recovery period 1999 through 2004 by LNP end office implementation date. The 12/31/98 forecast represents the access lines in the 21 MSAs that became LNP-capable by that date. The remaining dates reflect demand projections for end offices scheduled for LNP implementation on those respective dates. This allows for recovery from end users, as the LNP capability becomes available to them. The base demand for total access lines as defined in this study excludes official lines, non-switched data lines, and lines in end offices that are not scheduled for LNP implementation. Total access lines includes lines or trunks for 1) Primary Residential and Business local exchange service, 2) feature Group A, 3) Unbundled Network Element switch ports, 4) Payphone Service Provider lines, 5) Foreign Exchange service lines, 6) Foreign Central Office service lines, 7) Basic Rate ISDN Digital Subscriber lines, 8) PBX trunks, 9) PRI-ISDN, 10) Centrex-like/ESSX/Multiserv, and 11) Lifeline. It is assumed that cost recovery will be from all listed categories, except Lifeline. Also, PBX will be billed at 9 times the rate. PRI-ISDN will be billed at 5 times the rate. Thus, the demand is defined for total access lines, Lifeline, PBX, and PRI-ISDN lines. Calculations are made in Chart 2b, the cost study, to exclude Lifeline, factor PBX by 9, and factor PRI-ISDN by 5 for cost recovery.

2) Explain the assumptions underlying your querying and call routing demand shown in Chart2a. Do the BST queries on a per line basis reflect present traffic; i.e., the average number of inter switch calls per line? What adjustments were made to the average?

RESPONSE:
BellSouth forecasted the number of Call Routing Service and Query Service queries by starting with the actual numbers of calls that other carriers terminated on the BellSouth network. These numbers were then projected into the future based on expected growth rates of traffic from various types of carriers. The growth rates were adjusted based on knowledge of the carriers current operations and future plans to perform their own queries. For 1999, it was assumed that the three largest interexchange carriers (including the resellers on their networks), the large independents, and the large CLECs would query their own calls and not use BellSouth LNP Query Service. For the years 2000 – 2004, BellSouth assumed that more carriers would deploy their own databases; therefore, Query Service query demand would occur at a decreasing rate. In developing the forecast, the following key assumptions about customers were made for the LNP Database Services:

a) The number of customers for the query service in 1999 – 44, 2000 – 56, annually 2001 - 2004 – 59; and
b) The number of customers for the default service in 1999 – 87, 2000 – 51, 2001 – 37, 2002 – 28, 2003 – 21, 2004 – 21.

The BellSouth (BST) query volume is based on current traffic. The query volume, on a per line basis, was collected for the 21 Metropolitan Statistical Areas (MSAs), where LNP was activated. This data was used to project the query volume per line for the BST region. Access line growth and calls per line growth were included in the future year projections.

3) On the dedicated and joint cost worksheet, page 1, please explain the calculation of advancement cost of $11 million for switch hardware, processor upgrade on line 25. Are you treating this advancement cost as a capital expense and applying annual cost factors, or is it an amortized expense? Why are Lines 25 and 39 the same numbers in 1997? Were the advancement costs for the capital item in line 25 and the expense item in line 95 calculated the same way?

RESPONSE: The amount, $11,369,738, on line 25 of the Dedicated and Joint Worksheet is the starting point for calculating the cost of advancement for the SN70EM processor upgrade. The actual cost of the advancement that is included in the cost study is calculated in Chart 1-a on line 194. The cost of advancement is $1,149,749. The $1,149,749 amount was calculated by subtracting $11,369,738 minus the present value (PV) of $11,369,738, for 1 year using 11.25% cost of money. The cost of this advancement is treated as capital and annual cost factors are applied. Line 39 is the cost

of the capital upgrade. As indicated on line 39, only 15.6% of the amount is directly attributable to LNP. The 1997 dollar amounts on lines 25 and 39 are the same because the processor upgrade cost is the basis for calculating both the advancement cost, as well as, the upgrade cost that is directly attributable to LNP. The specific calculations are not performed in the Dedicated and Joint Worksheet. Line 25 represents the total amount of capital associated with the SN70EM processor that is advanced. As stated above, it is the basis for calculating the cost of money associated with the advancement. Line 95 represents the total amount of expenses associated with the SN70EM processor that is advanced. The actual cost of the expense advancement that is included in the study is the cost of money, $687,253, incurred to advance the $6.8 million expense by 1 year. This calculation is shown in Chart 1-a, line 283. The cost of this advancement is treated as an amortized expense.

4) Please explain in lines 31-42 why some LNP allocations are 40% and others are below 10%.

RESPONSE: There is no basis for assuming that allocation factors for different switch hardware components will be similar. Allocation factors were determined based upon projected LNP usage as a percent of each resource. A discussion of allocation methods used for various joint network items is provided in BellSouth's D&J on page 9. Generally speaking, LNP consumed fewer resources with regard to processor and generic upgrades than for AMA upgrades. LNP simply consumed a greater percentage of AMA storage based upon the average AMA record size increase due to the LNP 720 module, which is appended to each AMA record. As an example, attached is a description of how processor upgrade allocation factors were developed for the SN70EM processor.

5) How did you determine the number of STP links and price in line 41? Was SCIS used?

RESPONSE: SSP/STP link additions were determined by applying an average percent growth in traffic due to LNP for the highest busy hour in each SSP. Average percent growth in traffic was determined by sampling switches pre and post LNP implementation. Link sizing was then determined using standard BST engineering for SS7 links. Prices were then determined based upon negotiated contracts between the current vendors and BellSouth, not SCIS.

6) In line 215, regarding the salaries and wages, how were these determined; i.e., an allocation factor or by identifying a direct function?

RESPONSE: Line 215 of the Dedicated/Joint Worksheet reflects Science and Technology salary and wages. The functions being performed by the Science and Technology employees in support of LNP include inoperability testing in the labs of the software on the systems in a safe environment to ensure absence of network problems. Actual expenses for 1997 and 1998 were derived from BellSouth's Resource Tracking Analysis and Planning (RTAP) System. Estimated expenses are projected for 1999 through 2003 based on an estimate of approximately 20 employees at pay band 59. These projected dollar amounts were derived by multiplying the number of employees times the estimated number of annual hours times the 1998-2004 levelized directly assigned hourly labor rate for the pay band 59.

7) On lines 1324 and 1325, what is the definition of the telco and hardware factors?

RESPONSE: These line numbers refer to Chart 2b. Both of these factors are In-Plant factors. In-Plant factors add the engineering, installation labor, and miscellaneous equipment costs to the material price and/or vendor installed price of a piece of equipment. The In-Plant factors are necessary to capture the full direct costs of converting the material cost of a piece of equipment into an "In-Plant cost", that is, the ready for service installed cost.

The factor on line 1324 is the Telco In-Plant factor for Digital Electronic Switching Equipment (377C). It includes the Telco (BellSouth) engineering and labor costs, miscellaneous equipment costs, and sales taxes associated with 377C equipment installed by a switch vendor.

The factor on line 1325 is the Hardwire In-Plant factor for Digital Circuit Equipment (357C). It includes the engineering, installation labor, miscellaneous equipment costs, and sales taxes associated with "hardwired" ("not Plug-in") 357C equipment installed by BellSouth.

8) Why is the depreciation factor on line 1370 equal to 33%, instead of 1/5 of investment per year (for the 5-year recovery period)?

RESPONSE: The factor in Chart 2b on line 1370 is actually an amortization factor for the Intangible-Network Switching Right-to-Use Software Account 2690.5000 and the factor on line 1373 is an amortization factor for the Intangible-General Purpose Computer Right-to-Use Software Account 2690.4000. Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1"),

was issued March 4, 1998 by the Accounting Standards Executive Committee as approved by the Financial Accounting Standards Board ("FASB"). BellSouth adopted SOP 98-1's accounting requirements prospectively beginning January 1, 1999, in accordance with Generally Accepted Accounting Principles ("GAAP"). SOP98-1 requires the capitalization and amortization of the costs of all new software purchased or developed for internal use and certain enhancements and upgrades to existing internal-use software if the software provides additional functionality. Based on information provided by software vendors and internal subject matter experts, BellSouth estimates the useful life of switching software to be 3 years and the useful life of general purpose computing software to be 5 years. It is BellSouth's understanding that these useful life estimates are basically standard throughout the industry.

9) On line 1587, why are general computers under plant specific cost rather than non-specific cost?

RESPONSE: General purpose computer expense (A/C 6124) is grouped and listed under the FCC's Part 32 Rules as a plant specific operations expense. Therefore, the general purpose computer expense factor which is developed by BellSouth is a plant specific expense factor. The general purpose computer expense factor is essentially a reflection of a projected general purpose computer expense (A/C 6124) that is anticipated to support a dollar of general purpose computer investment (A/C 2124).

10) Please identify any upgrade that is not dedicated solely to number portability and is not available without the portability functionalities.

RESPONSE: No upgrades fit the described criteria. All joint cost upgrades were available independent of LNP functionality. For example, the SN70EM processor upgrade in the Nortel switch type does not require LNP as prerequisite software, nor does it contain specific LNP functionality.

Attachment

Allocation Methodology for LNP Cost Recovery
SN70EM Processor - Nortel DMS-100/200 Switch Type

The SN70EM processor handles all call processing, maintenance and administration functions in the Nortel DMS-100 and DMS-200 switch. The SN70EM processor is the largest capacity processor currently available from Nortel. Upgrades to this processor level began in 1997 due in part to the anticipated deployment of LNP. Analysis conducted jointly with Nortel and BST indicated that this processor would be required to handle the increased call-processing load associated with LNP query and response traffic required to route calls in areas where LNP would be implemented.

Since this processor handles all switch functions, an allocation method was required for cost recovery purposes to determine what percentage of processor capacity utilized is directly attributable to LNP query and response traffic. This allocation method was developed as follows:

End Offices:

A comparison of pre/post LNP busy hour processor utilization forecast data was made for a sampling of switches in Georgia and Florida, using a five year forecast period. An average processor utilization delta was computed across all forecast years for all end office switches in the sample study.

Tandems Offices:

A comparison of pre/post LNP busy hour processor utilization forecast data was made for all access/LATA tandem switches in the region, using a five year forecast period. An average processor utilization delta was computed across all forecast years for all tandem switches in the study.

A weighted average utilization factor of 15.6% was developed using both end office and tandem processor utilization data described above.